

Globalisation: Some Challenges for the Caribbean in the First Decade of the 21st Century

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Introduction

This paper examines the challenges that are likely to confront the Caribbean, and Barbados in particular, in the next decade, as a result of developments in international negotiating fora and global trends. It further discusses how these forces are likely to impact on regional development objectives, with special emphasis on the domestic financial system. It is suggested that the way in which these international trends and developments evolve will directly impact the development of the Caribbean and the financial system.

1. The Caribbean in an International Context

Over the past fifty years, while the challenges facing Caribbean countries have changed, the imperatives for development of the region have, for the most part, remained the same. These imperatives are to improve the quality of human capital, to modernise technologies and systems, to accelerate the pace of industrialisation and to improve the quality and competitiveness of the production of goods and services.

This notwithstanding, some of the traditional factors constraining the economic development of Caribbean countries have changed as a result of global forces. For example,

diseconomies of small scale and the degree of openness to trade and cultural penetration, which continue to be major challenges for the region, are becoming more manageable with advances in communication and information technologies, as well as the somewhat less restricted movement in capital. In particular, the vast improvements in telecommunications and computer systems have reduced some of these disadvantages by allowing companies to more easily build networks and strategic alliances. The fragmentation of markets in the region also remains a constraint to further regional cooperation, but there are now greater prospects of overcoming this hurdle.

There are, however, additional challenges, both negative and positive, that have emerged from the trend toward globalisation. Indeed, Dunning (1999 p. 41) notes the dilemma posed by globalisation for competition policy. On one hand alliances may enable participating firms to be more competitive in the global market, but on the other, these firms may better enable collaborating businesses to crowd out smaller competitors and/or reduce the contestability of markets. This is the situation that characterises the business environment in which Caribbean firms must operate.

Many of these difficulties which confront the region relate to global acceptance of the Washington Consensus¹ developed over the last decade of the twentieth century. The result has been supra-governmental interventions and international guidelines, which govern financial dealings and have led international interests to design operational rules that facilitate corporate globalisation. This Consensus calls for smaller government, privatisation of government enterprises, liberalisation of markets, removal of capital and monetary controls, dismantling of import controls, as well as the general opening-up of domestic economies.

As a consequence of these developments, multinational corporations have easier market access, free movement of capital

¹ The Washington Consensus is a philosophy of economic and financial development for the world, which had its origins in the International Monetary Fund and World Bank from around 1989.

and hassle-free establishment of businesses. This freedom of access offers both advantages and disadvantages for the Caribbean. One disadvantage relates to labour mobility. Given the view that technology can now be added to the traditional factors of production, Dunning (1999 p. 62) notes that the key costs to wealth creation in the new "globalising" environment are technology, entrepreneurship and organisational skills, and suggests that these must be mobile across national boundaries. However, while there has been support for capital mobility, little attention is being devoted to the need for labour mobility. This lack of labour mobility works to the disadvantage of countries with limited capital and abundant human resources. Countries that control capital surpluses have greater flexibility in the use of their resources, while countries with excess labour have been given little or none, and there is no indication that negotiators propose to address this issue. It was argued by proponents of globalisation that technology would make labour mobility unnecessary and that all countries could benefit irrespective of location. However, the advocates of globalisation and liberalisation are finding it difficult to make good their promise to deliver long-term growth or to provide higher standards of living for developing countries. This point has been echoed by other analysts, such as Rodrik (1997 p. 5), who argues that insufficient attention has been given to the impact of globalisation and trade liberalisation on wages and employment.

This dissatisfaction of developing countries with their share in the benefits of globalisation is becoming increasingly evident. At the turn of the century, there is general concern that the Washington Consensus is not delivering on its promises and that the developing world is not sharing in the benefits of globalisation. This view was strongly articulated at the Annual Meetings of the Inter-American Development Bank in Brazil in March 2002.

Small countries are unable to influence the imperatives of present-day negotiations or change the philosophy of the market. These demand that countries, regardless of size, embark on programmes of liberalisation to be taken seriously in

negotiations with large countries or within any economic bloc of which they are a part. Indeed, developing countries have found it is impossible to be integrated into the international environment unless their economic and financial systems are liberalised. Liberalisation has become a precursor to globalisation, which is a process with its own technologically-driven momentum, so that liberalisation too is being propelled forward. However, this process, though inevitable, is fraught with hurdles for developing countries and more especially for small countries like Barbados.

One concern of small, developing countries is that the need for special concessions is not being given sufficient audience. While there has been some acknowledgment of the special difficulties of small countries, as evidenced in the decision of the Free Trade Area of the Americas (FTAA) negotiating group to set up a committee to deal with the issue, this has not been the norm in other negotiating fora such as the World Trade Organisation (WTO).

It is also becoming increasingly clear that globalisation will usher in the meteoric rise of the large international corporation, and possibly the miniaturisation of the State, particularly the small state. Disadvantaged regions will only be able to flourish by ceding ownership and control to big corporations or by forming alliances with them. Today, corporate giants sometimes dwarf nations. Most recently, in February 2002, it could have been a simple matter for some corporate giant to bail out debt-ridden Argentina – and this is not a small country by any measure. In this environment, there have been increasingly insistent calls for a redistributive mechanism, a feature that is very absent in the new “thinking”, which expects the weak and the small to compete equally with the large and strong on the same playing field.

Supranational guidelines that facilitate globalisation also present new challenges for the small countries in the Caribbean to create special market niches. Kobrin (1999 p. 162), citing Hirst and Thompson (1995 p. 422), observes that the political order is becoming more polycentric, with states being seen as

"one level" in a very complex system of other overlapping and competing agencies of governance. This was very evident in the international financial services sector when countries which offered special low-tax rates for non-residents were listed by the Organisation of Economic Cooperation and Development (OECD) as tax havens. This process highlighted the very stark reality that small countries can be defenceless when their interests conflict with those of larger powers and that there cannot be any reliance on representation from international financial organisations to articulate their case. This reality, not by any means new, has added some impetus to the call for a new international financial architecture, one which will give a greater voice to the small, the defenceless and to the underdeveloped nations of the world. It tends to confirm the concerns of Kobrin (1999: 28) that globalisation will "at a minimum raise serious concerns about the meaning of internal and external sovereignty".

These challenges are also evident in the WTO and other associated negotiations. In this connection, concerns for small countries relate to issues of market access, job opportunities or job losses, economic restructuring and the cost of negotiations. Small and developing countries must, nevertheless, provide responses to these strategic concerns. A repeated reaction is to create arrangements that provide for a strong set of non-market institutions to counter market imperfections, since these systems have no built-in redistributive mechanism. However, it is not clear that this point has been "heard".

Compliance with rules developed by international organisations with applicability to the Caribbean will also be costly. Such rules are becoming quite complex and burdensome. The early version of the proposed new Basle Accord, for example, requires quite sophisticated mathematical applications, which commercial banks are expected to utilise and regulators to enforce. This will increase the cost of compliance, not only for regulators, whose scope of authority would now be broadened, but for financial institutions in small countries which, already

disadvantaged by diseconomies of small scale, will be required to re-equip in order to compete internationally.

Unilateral and bilateral developments in some (developed) jurisdictions can also have important implications for countries receiving these guidelines, amid increasingly global capital movements. Rules developed by individual countries will result in serious costs for other countries, where the fear of even the appearance of non-compliance is particularly severe. The U.S. Patriot Act, for instance, has the potential to create such a problem. In some cases, lack of knowledge of the entity, because it is small, may be its only flaw. However, where the costs of gaining such information and the risk of not doing so are higher than is warranted by the size of the transaction, then small entities, and by implication small countries, will be further sidelined and excluded from global financial transactions.

A key outcome of many of these arrangements is likely to be not only a greater shift of power toward large countries, but toward corporate rather than state power, since multinational firms can be expected to dominate these arrangements. In the Western Hemisphere, the regional dominance of the United States (US), economically, culturally, militarily and politically, is likely to be reinforced, as is evident in negotiations of the FTAA. In Europe, the establishment of the European Union, a European Central Bank and a single currency will in many ways provide some balance to the economic hegemony of the US. However, this does not offer any respite as new arrangements continue to undermine the favourable historical association of the Anglophone Caribbean with Britain.

The Caribbean has been intent on negotiating the region's entry into these new arrangements on the most favourable terms and has been trying to debunk the idea of a level playing field. Unless it is accepted that the removal of special arrangements for small countries, far from levelling the playing field, makes it more uneven, the hope of small, but important, concessions to small countries could be lost.

Current trends in the global thrust for greater integration of world economies have other adjustment

implications. Some apply to all countries and others have special significance for the Caribbean, given its social and political history. In the years ahead, for example, new production relations will require new social relations and above all new labour relations. The trade-off will not be between competitiveness and profitability, but between competitiveness and survival. The traditional role of trade unions in this process is, therefore, likely to require some modification, since corporate survival will become an increasingly key factor.

Also, one must be cautious about applying panaceas forged in these fora without evaluation of their relevance to the Caribbean situation. The notion of "a smaller role for government" in its applicability to the Caribbean context is one such case. The idea of "smaller government" suggests that governments should not become involved in production except as facilitators. Yet the writing of Stopford (1999 p. 477) indicates, (quoting Singapore, where nearly 70 per cent of income is spent by government), that in many high-powered economies, governments are spending more, not less. A national approach that permits early ownership and subsequent disposition, and which by so doing creates resources for another round of investment, should not be considered evidence of non-acceptance of the tenets of private sector-led growth. It is, in fact, an extension of the facilitating role of government, and its adoption may allow small countries like those in the Caribbean to prepare for eventual insertion into the global economy until such time as capital markets are sufficiently developed and sufficiently deep to accommodate large initial public offerings, which could assist in this process. Indeed, Stopford further suggests that the role of government in providing market-friendly assets of general education, infrastructure, and general technology is not enough in this "globalised" world; there must be complementarity between public policies for competitiveness and private-investment policy in order to provide a strong response to the changes in the global market. Lipsey (1999) refers to it as a "partnership between government and firms in the wealth-creating process".

2. A Regional Perspective

International developments have served to underline the importance of regionalism. It is now clear to Caribbean leaders that some of the problems posed by globalisation can be partly offset through the process of integration of regional markets. In fact, the trend towards the creation of economic blocs across the globe, such as the North Atlantic Free Trade Area, the European Union and Mercosur, prompted the Caribbean in the 1990s to give increasing attention to the regional integration imperative.

The history of the West Indies Federation, the lack-lustre enthusiasm for the Caribbean Community and Common Market (CARICOM), successful in booms and threatened in the times of slump, are examples of policies that were implemented to safeguard national economies, but have hurt some territories. Yet Caribbean countries perform worst when regionalism is abandoned. The examples suggest that one must turn to the 1992 Report of the West Indies Commission and to the Grand Anse Declaration of 1989. These recognised the importance of regional cooperation and made a powerful case for Caribbean unity as the single most important factor necessary for the growth and development of the region. Between them, there is a call for the need to make currencies freely convertible; free movement of individuals within the region; the removal of all implicit and explicit anti-export biases; the immediate introduction of the Common External Tariff by all member states; negotiations with NAFTA (or FTAA) to be conducted on a regional basis; long-term lending to be accessed; as well as trading houses and a regional stock exchange to be encouraged. All of these recommendations are still relevant and, more importantly, a growing realisation of the need for their urgent implementation is beginning to spur the region into action.

Indeed, as the 20th century ended, the region became more focused on widening and deepening the regional market. The nine Protocols agreed to by CARICOM are evidence of this commitment. This has also led to greater acceptance, by many, of the need to focus on convergence of economic strategies in the

Caribbean as a precursor to the creation of a more fertile ground for regional integration. Furthermore, the global environment suggests a reorganisation of the region to deal with complexity, with what Kobrin (1999 p. 162) refers to as dealing with ambiguity, with multiple levels of authority and with the coexistence of various types of political and economic actors.

Such convergence can include the creation of regional clusters. A response of some regions to globalisation has been the development of policies geared towards support for such i.e. the agglomeration of firms in the region in the same or related industries. Enright (2000 p. 308) adds that multinational organisations have taken up cluster strategies as tools for regional and local development. This involves the review of government's tax policy, the examination of regulations, the reduction of the costs of services administration and the maintenance of a favourable business climate as possible responses for small countries to avoid the perils of inter-country competition. In fact, Mirza (2000) notes that the shift of production to developing countries over the past two decades (particularly to Southeast Asia) and attributes many of these developments to the simultaneous process of globalisation and regionalisation. Clustering is seen as part of the regionalisation process. Convergence and clustering are approaches that can be considered simultaneously in the Caribbean region. In many ways, they are already occurring whether or not they are government-initiated.

3. The Challenges Ahead for the Caribbean in the Next Decade

A number of factors will be critical to the development of the Caricom Single Market and Economy in the next decade. Firstly, the freeing-up of capital accounts for the effective functioning of a single market and economy. Secondly, Caribbean countries must take economic convergence more seriously and be cognisant of the need to evaluate the

implications of their national monetary and fiscal policies in a regional context. Thirdly, fixed exchange rate economies will need to develop strategies that will permit the removal of exchange controls on CARICOM transactions. The time is also ripe for the region to revisit more aggressively the idea of a common currency, particularly having regard to the rising pre-eminence of the *euro*, a currency which resulted from not altogether dissimilar circumstances. Fourthly, more rapid opening of the equity markets in the region will also be an important goal. This will help to reduce the significance of some of the factors dampening the growth of these markets such as low income and small size - constraints that will become more manageable if there is integration of equity markets. Other critical actions which are required are the removal of the application of Aliens Landholding requirements to nationals of all CARICOM countries; legislation restricting non-national service providers from operating inside CARICOM; and the requirements for work permits for CARICOM nationals.

Challenges in the Field of Finance in Barbados

Globalisation also has implications for financial markets and for the future role of central banks. With the opening of capital accounts and the changing financial environment, the challenge for central banks to guard against volatility of capital flows will become even more important. As capital transactions become less bound by geography or time, inflows can be reversed just as quickly as they enter, as was evident in the case of Southeast Asia in 1997 and 1998. It is, therefore, more critical for small countries like Barbados to be vigilant and build foreign exchange reserves in order to provide a cushion against sudden withdrawals of foreign capital. In this regard, Barbados has already been accumulating a sizeable amount of foreign reserves and is in the process of developing a second tier of reserves, which would be held by institutional investors, but be available for repatriation, if necessary. It is expected that this new

initiative will permit an acceleration of the process of financial liberalisation.

Another challenge in the area of finance will be the ability of the Barbadian services sector to build the necessary capacity to compete with international service providers and absorb the new technologies for effective delivery of these services. The introduction and design of new products and services, which are comparable in quality and timeliness to those delivered from North America and Europe, will also be essential if the domestic banking sector is to compete effectively with external competition. Also, the quality of professional and technical expertise must match that of the larger foreign financial institutions.

Global trends will also mean that the tendency towards cross-border mergers and acquisitions is likely to continue, and the formation of cross-border strategic alliances with regional and non-regional partners can become a more frequent occurrence. This should keep the financial system proactive and receptive to change. Given the small size of the region and the tendency for sectors to be dominated by a single merged entity, there may, however, also be a need, as pointed out by Khan (2001 p. 167), to determine when mergers in the Caribbean cease to be in the public interest. There will be some optimally-efficient level of mergers and acquisitions that may need to be established so as to prevent anti-competitive behaviour and anti-trust type activity. This requires that regulators work jointly with the relevant institutions to develop guidelines in these areas. Smaller institutions will be more pressured than large institutions, as a result of these developments. However, when the point is reached where anti-competitive guidelines are triggered, small entities like those in the Caribbean are likely to become less threatened by these developments. The transition period prior to reaching that point must be strategically planned.

In addition, global developments will lead to a market for non-traditional services. In the area of banking-related services, already a greater number of near-banks are being established and the types of services offered such as advisory,

fund management and corporate services, are already beginning to show some differentiation from banks, and this will most likely continue.

Domestic challenges to the development of the international business sector must be met aggressively. These include developing a greater depth of skills in financial management and in securities management in particular, designing new and attractive instruments for potential investors and structuring corporate arrangements that assist in the tax planning of large corporations. International financial service providers, therefore, are required to move to ensure that more investment decisions, choices about the placement of funds and other strategic decisions are made locally because investors choose to do so. It would be useful if such developments could be supported by the establishment of a market in offshore securities. This, too, may be another development worthy of consideration.

In the longer term, liquidity management in different CARICOM countries could become a challenge and may call for greater coordination of macroeconomic and of public sector investment decision-making among central banks and monetary authorities. This is required since the movement of funds throughout the region may impact on liquidity in ways that are not necessarily consistent with the objectives of individual governments.

Within the next 10 years, the delivery of banking services will change dramatically; e-banking will most likely be the norm and integrated payments should be a common occurrence. Government's institutional transactions will likely be handled through the Internet, as e-government is given greater emphasis. In anticipation of these developments, the Central Bank of Barbados has already taken the initiative to develop e-banking guidelines, which will apply to banks engaged in this activity, has developed a Real Time Gross Settlement System and, in collaboration with commercial banks, initiated an automated clearing house. External competition will force banks into adopting e-commerce technology as they

respond to efforts by overseas financial institutions that attempt to poach customers in the region. Rating agencies are also likely to spring up in the region as international companies expand their business in the region and as cross-border activity increases. Litan and Santomero (1999, p. 23) describe the impact of the liberalisation process on regulation by suggesting that the traditional mandate to protect markets by regulatory dictate will be replaced by the natural functions of competitive firms meeting the needs of market participants. The downside for regulators will be that of dealing with anti-competitive behaviour in oligopolistic markets.

Technological changes in banking and in the transfer of capital and information will inevitably lead to greater financial liberalisation and could restrict the effectiveness of monetary policy as traditionally defined. Moral suasion and publicly-shared information will become important to ensuring compliance. Indeed, as the financial system becomes more networked, more complex, more technologically-driven, and more market-oriented, it is expected that the Central Bank's regulatory role is anticipated to become increasingly more important and sophisticated. Already the International Monetary Fund, the institution at the apex of the world financial system, has developed Codes of Governance for transactions by commercial banks, central banks and other financial institutions. Central banks will therefore need to equip themselves to adequately monitor compliance with guidelines appropriate to their circumstances. Consequently, though liberalisation will possibly reduce the scope for monetary policy, it will most likely broaden and deepen the scope of financial regulation, leading to a need for greater oversight of financial transactions.

Conclusion

It has been argued by Rodrik (1999, p. 2) that the most serious challenge for the world economy in the years ahead will be that of making globalisation compatible with domestic

stability. The strategy for small countries like Barbados and regions like the Caribbean, must be to simultaneously address the challenges which globalisation presents on two fronts. At one level, Barbados and the region must make every effort to match the level of efficiency and productivity in large developed economies, by offering by way of skills what is lacked in size and scope. At the same time, the region must build corporate alliances with international corporations that are interested in the Caribbean and must seek to offer services at competitive prices outside the region.

At a second level, Barbados and the region must at the same time continue to argue the case for special arrangements for small countries in international fora by enlisting the help of countries with similar concerns.

However, the process of globalisation and financial liberalisation is almost inexorable and we must prepare for a more unaccommodating international environment. Our response times must be faster and multifaceted since today's business environment requires complex organisational changes to achieve the enhancements demanded by the competition and by new technological enhancements. This is so in all fields but especially so in the provision of finance facilities. In that regard, Hitt, Frei and Harper (1999) refer to the need for a cadre of "organizational architects". The region must pay greater attention to the development of such skills.

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